

BankMuscat  بنك مسقط

CMA REPORT
PERIOD ENDED JUNE 30, 2009

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Chairman's Report – June 2009

Dear Shareholders,

Coinciding with the Sultanate of Oman's 39th Renaissance Day celebrations, I am glad to share with you the results achieved by the Bank for the six month period ending 30 June 2009. In an unusually challenging environment for financial institutions around the world, the Bank recorded a resilient performance during the period in question.

The Bank achieved net profit of RO 60.4 million for the six months ended June 30, 2009 compared to RO 57.8 million reported during the same period in 2008, an increase of 4.5%. The net profit for the first half 2009 includes RO 53.2 million of post-tax gain on sale of HDFC Bank investment. The Bank had sold its remaining stake in HDFC Bank, India in June 2009 and as a result, total post-tax gain of RO 53.2 million is reflected in the Income Statement in the 2009 First Half results. During the second quarter of 2009, the Bank has made provision for credit losses amounting to RO 40.2 million. This includes provisions on the Bank's exposures to two large business groups in Saudi Arabia - Al Gosaibi and Saad Group.

Net interest income increased by 12% to RO 83.4 million during the 6-month period ended June 30, 2009 from RO 74.7 million reported during the corresponding period in 2008.

Non-interest income has grown by RO 42.0 million to RO 84.7 million in the first half 2009 as compared to RO 42.7 million for the same period in 2008 mainly on account of the gain on HDFC Bank investment. However, non-interest income excluding the gain on HDFC Bank investment and realised losses on Available-for-Sale investment was lower by 9% compared to the same period in 2008.

In Q1 '09, the bank had accounted for RO 7.5 million in respect of realised and unrealised losses on the AFS investment portfolio. In Q2 '09, an additional RO 1.9 million of realised and unrealised losses on the AFS investment portfolio was accounted.

The Bank successfully contained the operating expenses in 2009. Operating expenses for the first half 2009 at RO 42.4 million lower by RO 1.1 million compared to the same period in 2008. Impairment for credit losses for the first half 2009 was RO 51.5 million as against RO 13.1 million, an increase of RO 38.4 million. Share of loss from associates was at RO 4.7 million for the six months ended June 30, 2009 mainly due to share of loss from BMI Bank, Bahrain and Silkbank, Pakistan. BMI Bank posted a loss during the second quarter as it has made provisions for the exposures to the Saudi groups during June 2009.

The Bank's net Loans and Advances of RO 3,811 million as of June 30, 2009 has grown by 20% as compared to the position on June 30, 2008. Customer deposits, including CDs

have seen a growth of 14% from RO 2,816 million as of June 30, 2008 to RO 3,214 million as of June 30, 2009.

Strategic initiatives

During the second quarter, the strategic initiatives by the Bank included the RO 60 million 8% subordinated bond, which closed with encouraging response, leading to exercising the Green shoe option of RO 15 million, thereby increasing the issue size and allotment to RO 75 million.

Meanwhile, the ongoing CD issuance programme by the Bank accepted a total amount of RO 94.10 million of bids till the 7th auction. The Bank targets a total of RO 250 million from the CD issuance programme within a one-year timeframe.

BankMuscat, through its subsidiary Muscat Securities House Company (MSH), recently received approval from the Capital Market Authority to commence business in the Kingdom of Saudi Arabia. The company is a “Greenfield” operation and we do not expect immediate profits from it.

In Conclusion

On behalf of the Board of Directors, I would like to take this opportunity to thank the customers and banking community, both in Oman and overseas, for the confidence reposed in the Bank. I would also like to thank the Management Team and all our employees for their dedication and commitment, without which the Bank would not be able to continue to reach higher levels of excellence.

The Board of Directors welcomes and supports the measures taken by the Central Bank of Oman and the Capital Markets Authority with a view to strengthening the financial markets in the Sultanate. The Bank’s growth would not have been possible without the foresight and market-friendly policies adopted by His Majesty’s Government.

The Board of Directors is deeply grateful to His Majesty Sultan Qaboos bin Said for his vision and guidance, which has helped the country along its path of growth and prosperity during the past 39 glorious years of Renaissance led by His Majesty the Sultan.

AbdulMalik bin Abdullah Al-Khalili

Summary of unaudited results as at 30 June 2009

	30-Jun-09	30-Jun-08
	RO' 000	RO' 000
Loans and advances net of provisions and reserved interest	3,811,057	3,191,772
Customer Deposits and Bonds	3,284,177	2,982,672
Net assets	686,771	712,973
Net assets per share *	0.638	0.662
	6 months ended 30 June 2009	6 months ended 30 June 2008
Net interest income	83,369	74,673
Net profit before tax for the period	72,262	67,977
Net profit after tax for the period	60,438	57,827
Basic earnings per share (for the period) **	0.056	0.054
Diluted earnings per share (for the period) **	0.056	0.054
Capital adequacy ratio ***	15.03%	12.09%

* Net assets per share is calculated by dividing net assets owned by ordinary shareholders at 30 June 2009 by 1,077 million number of ordinary shares. (2008 : 1,077 million ordinary shares)

** Basic and Diluted earnings per share is calculated as per International Accounting Standard No : 33.

*** Capital adequacy ratio has been calculated in accordance with the Basle II guidelines.

*Unaudited Profit and loss account
For the six months ended 30 June 2009*

	Notes	6 months ended 30 June 2009	6 months ended 30 June 2008	3 months ended 30 June 2009	3 months ended 30 June 2008
		RO' 000	RO' 000	RO' 000	RO' 000
Interest income	1	139,020	122,833	68,734	61,324
Interest expense	2	(51,038)	(44,719)	(21,886)	(21,972)
		<u>87,982</u>	<u>78,114</u>	<u>46,848</u>	<u>39,352</u>
Interest expense on tier II capital		(4,613)	(3,441)	(3,097)	(1,721)
Net interest income		<u>83,369</u>	<u>74,673</u>	<u>43,751</u>	<u>37,631</u>
Other operating income	3	84,757	42,715	35,358	24,741
OPERATING INCOME		<u>168,126</u>	<u>117,388</u>	<u>79,109</u>	<u>62,372</u>
OPERATING EXPENSES					
Other operating expenses		(39,383)	(40,930)	(19,569)	(21,214)
Depreciation		(2,980)	(2,600)	(1,539)	(1,334)
		<u>(42,363)</u>	<u>(43,530)</u>	<u>(21,108)</u>	<u>(22,548)</u>
Impairment for credit losses	5	(51,477)	(13,081)	(40,290)	(6,542)
Impairment for Investments		(2,205)	-	(485)	-
Recoveries from impairment for credit losses	5	4,871	3,810	3,734	2,122
Recoveries from impairment for investments		-	583	-	583
Share of (loss) / profit from associates	8a	(4,690)	2,807	(4,365)	700
		<u>(95,864)</u>	<u>(49,411)</u>	<u>(62,514)</u>	<u>(25,685)</u>
PROFIT BEFORE TAXATION		<u>72,262</u>	<u>67,977</u>	<u>16,595</u>	<u>36,687</u>
Tax expense		(11,824)	(10,150)	(4,574)	(5,400)
NET PROFIT FOR THE PERIOD		<u>60,438</u>	<u>57,827</u>	<u>12,021</u>	<u>31,287</u>

*Unaudited Balance sheet
As at 30 June 2009*

	Notes	30-Jun-09 RO' 000	30-Jun-08 RO' 000
ASSETS			
Cash and balances with Central Banks		537,916	335,308
Placements with banks		898,902	810,266
Loans and advances	4 & 5	3,811,057	3,191,772
Investments	8b & c	154,326	407,670
Investment in associates	8a	87,773	119,087
Property and equipment		22,520	21,242
Other assets		215,713	127,647
		<u>5,728,207</u>	<u>5,012,992</u>
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Deposits from banks		1,265,963	973,241
Customers' deposits	6	3,117,624	2,802,994
Certificates of deposit		96,350	13,225
Unsecured bonds		54,803	54,803
Floating rate notes		15,400	111,650
Other liabilities		281,642	211,522
Taxation		21,154	19,084
Subordinated liabilities		188,500	113,500
		<u>5,041,436</u>	<u>4,300,019</u>
SHAREHOLDERS FUNDS			
Share capital		107,713	107,713
Share premium		301,505	301,505
Convertible bonds		32,314	-
General reserve		56,308	56,308
Legal reserve		35,905	35,905
Revaluation reserve		3,957	3,957
Subordinated loan reserve		24,200	2,567
Cumulative changes in fair value	8a&8b	3,149	96,992
Retained profit		121,720	108,026
		<u>686,771</u>	<u>712,973</u>
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		<u>5,728,207</u>	<u>5,012,992</u>
Contingent liabilities	11	<u>943,973</u>	<u>1,148,344</u>
Related party information			
Due from related parties	9	52,978	39,970
Due to related parties		29,557	45,488

Unaudited Statement of cash flow
For the six months ended 30 June 2009

	6 months ended 30 June 2009	6 months ended 30 June 2008
	RO' 000	RO' 000
Cash flow from operating activities		
Net profit for the period before taxation	72,262	67,977
Adjustments for :		
Depreciation	2,980	2,600
Investment income	(54,416)	(7,522)
Operating profit before working capital changes	<u>20,826</u>	<u>63,055</u>
Change in operating assets*	(71,129)	(598,143)
Change in operating liabilities**	(299,198)	539,116
Net cash (used in) / from operating activities	<u>(349,501)</u>	<u>4,028</u>
Net cash from / (used in) financing activities	53,458	(48,857)
Net cash (used in) / from investing activities	110,113	(49,392)
Net (decrease) / increase in cash and cash equivalents	<u>(185,930)</u>	<u>(94,221)</u>
Cash and cash equivalents brought forward	410,385	328,179
Cash and cash equivalents carried forward	<u><u>224,455</u></u>	<u><u>233,958</u></u>

* Operating assets includes deposits with central banks, bank placements, loans and advances and other assets.

** Operating liabilities includes customer deposits, deposits from banks and other liabilities.

Unaudited Statement of Changes in Equity
Period ended 30 June 2009

	Share capital	Share premium	General reserve	Legal reserve	Revaluation reserve	Subordinated loan reserve	Cumulative changes in fair value	Convertible Bonds	Retained profit	Total
	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000		RO' 000	RO' 000
Balance at 31 December 2007	107,713	301,505	56,308	35,905	3,957	2,567	10,258		109,357	627,570
Loss on transation of investment in associates									(11,712)	(11,712)
Change in fair value of investments available for sale							59,018			59,018
Net income directly recognised in equity	-	-	-	-	-	-	59,018		(11,712)	47,306
Net profit for the year									93,731	93,731
Total income recognised for 2008	-	-	-	-	-	-	59,018		82,019	141,037
Dividend paid - 2007									(53,857)	(53,857)
Transfer to subordinate loan reserve						21,633			(21,633)	0
Balance at 31 December 2008	107,713	301,505	56,308	35,905	3,957	24,200	69,276		115,886	714,750
Balance at 31 December 2008	107,713	301,505	56,308	35,905	3,957	24,200	69,276	-	115,886	714,750
Net Loss on transation of investment in associates									(747)	(747)
Change in fair value of AFS investments *							(66,127)			(66,127)
Net income directly recognised in equity	-	-	-	-	-	-	(66,127)	-	(747)	(66,874)
Net profit for the year									60,438	60,438
Total income recognised for Q1-09	-	-	-	-	-	-	(66,127)	-	59,691	(6,436)
Dividend paid - 2008									(21,543)	(21,543)
Convertible bonds issued - 2008								32,314	(32,314)	-
Balance at 30 June 2009	107,713	301,505	56,308	35,905	3,957	24,200	3,149	32,314	121,720	686,771

* Includes the reversal of mark to market gain of RO 68.8 mn booked on HDFC Bank investments as on Dec 31, 2008. Reversal is on account of sale of entire investment portfolio in HDFC Bank during H1-2009. Actual realised gain of RO 60.6 mn (post tax 53.2 mn) is accounted through the income statement

Notes to the Financial Statements as at 30 June 2009
1. Interest Income

Interest bearing assets earned interest at an overall rate of 5.64% for the six months ended 30 June 2009. (June 2008 : 5.92%).

2. Interest expense

For the six months ended 30 June 2009 the average overall cost of funds was 2.53%. (June 08 : 2.53%).

3. Other operating income

	For the six months ended		For the three months ended	
	30-Jun-09	30-Jun-08	30-Jun-09	30-Jun-08
	RO' 000	RO' 000	RO' 000	RO' 000
Foreign Exchange	3,967	3,019	1,752	1,609
Commission and fees (net)	26,376	27,636	14,501	14,937
Dividend income	785	2,507	118	1,750
Profit/(loss) on sale of investment securities	53,325	8,360	18,965	5,772
Other income	304	1,193	22	673
	<u>84,757</u>	<u>42,715</u>	<u>35,358</u>	<u>24,741</u>

The commission and fees shown above is net off commission and fees paid of RO 290 K. (2008 : RO 439 K.)

4. Loans and advances

Loans and advances is analysed as follows:

	30-Jun-09	30-Jun-08
	RO' 000	RO' 000
Corporate and Other Loans	2,465,170	1,997,123
Personal and Housing loans	1,523,165	1,315,754
Gross loans and advances	<u>3,988,335</u>	<u>3,312,877</u>
Less : Provisions and reserved interest	177,278	121,105
Net loans and advances	<u>3,811,057</u>	<u>3,191,772</u>

Notes to the Financial Statements as at 30 June 2009 (continued)

4. Loans and advances (continued)

The maturity of these is analysed as follows:

	30-Jun-09	30-Jun-08
	RO' 000	RO' 000
Less than 1 year	1,126,497	948,553
1 to 3 years	651,290	511,854
3 to 5 years	453,847	326,215
Over 5 years	1,756,701	1,526,255
	<u>3,988,335</u>	<u>3,312,877</u>

The interest rate band of these are as follows:

	30-Jun-09	30-Jun-08
	RO' 000	RO' 000
0-5%	1,027,523	1,103,490
5-7%	677,126	576,484
7-9%	2,050,782	1,437,234
9-11%	180,928	137,404
11-13%	28,702	38,712
more than 13%	23,274	19,553
	<u>3,988,335</u>	<u>3,312,877</u>

Notes to the Financial Statements as at 30 June 2009 (continued)
5. Provisions and reserved interest

The movement on the provision for possible credit losses and reserved interest for the period is analysed as follows:

	Provisions RO' 000	Reserved Interest RO' 000
At 1 January 2009	99,597	25,977
Provided during the period	51,477	
Released/recovered during the period	(4,323)	
Written off during the period	(315)	(310)
Interest reserved during the period		6,739
Reserved interest recovered		(1,564)
At 30 June 2009	<u>146,436</u>	<u>30,842</u>

	Provisions RO' 000	Reserved Interest RO' 000
At 1 January 2008	85,036	23,664
Provided during the period	13,081	-
Released/recovered during the period	(3,384)	-
Written off during the period	(318)	(422)
Transferred during the period	912	-
Interest reserved during the period	-	4,591
Reserved interest recovered	-	(2,055)
At 30 June 2008	<u>95,327</u>	<u>25,778</u>

Recoveries of RO 4,871 K (June 2008: 3,810 K) reported in the income statement includes RO 548 K (2008: 426 K) recovered from loans written off earlier.

Interest is reserved on loans and advances which are impaired.

At 30 June 2009 loans and advances on which interest had been reserved amounted to RO 189.65 Million (2008 : RO. 72.79 Million). This includes off balance sheet exposure.

* *Specific provisions are established after considering security on a case by case basis in respect of specific loans and advances where recovery appears doubtful.*

** *General Provisions are established to meet the credit risks inherent within the loans and advances portfolio.*

Notes to the Financial Statements as at 30 June 2009 (continued)

6. Deposits

Deposits are analysed as follows:

	30-Jun-09	30-Jun-08
	RO' 000	RO' 000
Current accounts	715,233	793,253
Call accounts	213,010	243,306
Savings accounts	766,519	802,675
Time deposits	1,407,927	950,651
Other	14,935	13,109
Customer Deposits	3,117,624	2,802,994
CD's / Unsecured Bonds / FRN's	166,553	179,678
Total Deposits	3,284,177	2,982,672

The maturities of deposits are as follows

	30-Jun-09	30-Jun-08
	RO' 000	RO' 000
Less than 1 year	2,087,784	1,634,384
1 to 3 years	408,344	394,309
3 to 5 years	262,940	428,237
Over 5 years	525,109	525,742
	<u>3,284,177</u>	<u>2,982,672</u>

The interest rate bands of deposits are as follows:

	30-Jun-09	30-Jun-08
	RO' 000	RO' 000
0%	1,343,403	1,325,432
0-2%	756,363	593,191
2-4%	316,425	606,391
4-6%	848,129	395,657
more than 6%	19,857	62,001
	<u>3,284,177</u>	<u>2,982,672</u>

7. Asset liability mismatch

The asset liability mismatch is analysed as follows:

<i>Maturities</i>	30-Jun-09			30-Jun-08		
	Assets	Liabilities	Mismatch	Assets	Liabilities	Mismatch
	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000	RO' 000
Less than 1 year	2,500,029	3,298,858	(798,828)	2,205,509	2,585,876	(380,367)
1 to 3 years	763,975	595,716	168,259	636,127	565,298	70,829
3 to 5 years	534,137	446,037	88,100	375,832	522,556	(146,724)
Over 5 years	1,930,065	1,387,596	542,469	1,795,524	1,339,262	456,262
	<u>5,728,207</u>	<u>5,728,207</u>	<u>-</u>	<u>5,012,992</u>	<u>5,012,992</u>	<u>-</u>

The mismatch represents the difference between assets and liabilities for each maturity band. Share capital is included within liabilities.

Notes to the Financial Statements as at 30 June 2009 (continued)
8. Non Trading Investments
8.a. Investment in associates
1 Investment in Centurion Bank of Punjab Limited (CBoP), India

As at June 30, 2009 the carrying value of the investment in CBoP / HDFC Bank was as follows:

	30-Jun-09	30-Jun-08
	RO. 000's	RO. 000's
Carrying value of the investment at December 31		21,832
Share of profit for the period Oct07 to Dec07		803
Profit / (loss) on translation of foreign currency investments		(1,086)
Carrying value as on May 31, 2008 trfd to investment securities		(21,549)
Carrying value of the Investment at June 30	<u><u> </u></u>	<u><u> </u></u>
		-

In the year 2008, CBoP merged with HDFC Bank which diluted BankMuscats strategic stake of 17.33% in CBoP to 2.67% in the merged entity. Post merger the investment in associate was accounted as 'Available for sale securities' and was marked to market.

During 2009, the Bank fully sold off its investment in HDFC Bank and booked a post tax gain on sale of investments of RO 53,224 K in the income statement.

2 Investment in Bank Muscat International (BMI), Bahrain

As at June 30, 2009 the carrying value of the investment in BMI was as follows:

	30-Jun-09	30-Jun-08
	RO. 000's	RO. 000's
Carrying value of the investment at December 31	65,668	67,124
Share of profit for the period Jan 09 to June 09	(2804)	1,389
Carrying value of the Investment at June 30	<u><u>62,864</u></u>	<u><u>68,513</u></u>

3 Investment in Mangal Keshav Holdings Private Limited (MKH), India

As at June 30, 2009 the carrying value of the investment in MKH was as follows:

	30-Jun-09	30-Jun-08
	RO. 000's	RO. 000's
Carrying value of the Investment at Jan 1	9,355	10,745
Share of profit for the period Oct07 to Mar 08		616
Share of profit for the period Oct08 to Mar 09	(79)	-
Profit / (loss) on translation of foreign currency investments	128	(902)
Carrying value of the Investment at June 30	<u><u>9404</u></u>	<u><u>10,459</u></u>

4 Investment in SaudiPak Commercial Bank Limited (SPCB), Pakistan

As at June 30, 2009 the carrying value of the investment in SPCB was as follows:

	30-Jun-09	30-Jun-08
	RO. 000's	RO. 000's
Total consideration paid	17,880	43,428
Share of profit for the period Jan 09 to June 09	(1807)	-
Profit / (loss) on translation of foreign currency investments	(568)	(3313)
Carrying value of the Investment at June 30	<u><u>15,505</u></u>	<u><u>40,115</u></u>

Notes to the Financial Statements as at 30 June 2009 (continued)
8. Non Trading Investments (continued)
8.b. Available For Sale

	Fair Value 30-Jun-09 RO' 000	Fair Value 30-Jun-08 RO' 000
<i>Quoted Investments</i>		
Industrial sector	2,984	9,661
Financial services sector	12,810	11,872
Other services sector	6,234	28,974
Foreign securities*	19,215	122,164
Corporate Bonds	7,746	7,412
Government bonds	48,210	17,381
Total	<u>97,199</u>	<u>197,464</u>
<i>Unquoted investments</i>		
Unquoted local securities	6,341	5,725
Unquoted foreign securities	8,013	6,658
Investment fund units	49	769
Total	<u>14,403</u>	<u>13,152</u>
Impairment losses	(5,252)	(2,236)
Total available for sale	<u>106,350</u>	<u>208,380</u>
8.c. Held To Maturity		
Treasury Bills	38,006	175,065
Government Bonds	9,970	24,225
	<u>47,976</u>	<u>199,290</u>

* Includes RO Nil (2008: 100,596 K) relating to investment in HDFC Bank.

Notes to the Financial Statements as at 30 June 2009 (continued)
9. Related Party Transactions

The balances of directors and their related concerns were as follows:

	30-Jun-09	30-Jun-08
	RO' 000	RO' 000
Loans and advances	52,978	39,970
Current, deposit and other accounts	29,557	45,488
Customers' liabilities under documentary credits, guarantees and other commitments	5,212	5,519

The income and expenses in respect of related parties are as follows:

	6 months ended 30 June 2009	6 months ended 30 June 2008
	RO' 000	RO' 000
Interest income	716	1,485
Interest expenditure	248	293
Commission and other income	11	14

10. Shareholders

Shareholders of the bank who hold 10% or more of the bank's shares are given below:

	30-Jun-09	30-Jun-08
	RO' 000	RO' 000
Royal Court Affairs	26,754	26,754
Dubai Financial Group LLC	16,157	16,157
	<u>42,911</u>	<u>42,911</u>

11. Contingent liabilities

Letters of Credit	329,511	585,130
Guarantees	614,462	563,214
	<u>943,973</u>	<u>1,148,344</u>

12. Forwards and options
Forwards

- Sales	1,445,049	3,638,810
- Purchases	1,463,802	3,645,865

Options

- Sales	12,922	71,253
- Purchases	20,225	79,282

13. Comparative Figures

The corresponding figures for 2008 included for comparative purposes have been reclassified to conform with the presentation in the current year.